



AN INTRODUCTION TO  
**Daily Business  
Management**

Using Trade Data to Optimize Product  
Availability



# Table of Contents

---

Benchmarks	4
Daily Business Management Defined	18
Best Practices	20
Data and Technology Considerations	26
Conclusion	27

©2014 IntegriChain, Inc. All Rights Reserved. IntegriChain is a registered trademark of IntegriChain, Inc. All other trademarks are property of their respective owners.



# Benchmarks

Trends in Product Availability

---

# Retail Inventory

## Weekly Trends

---

Despite what many pharmaceutical manufacturers may assume, the data on product availability and pharmacy in stock rates tells

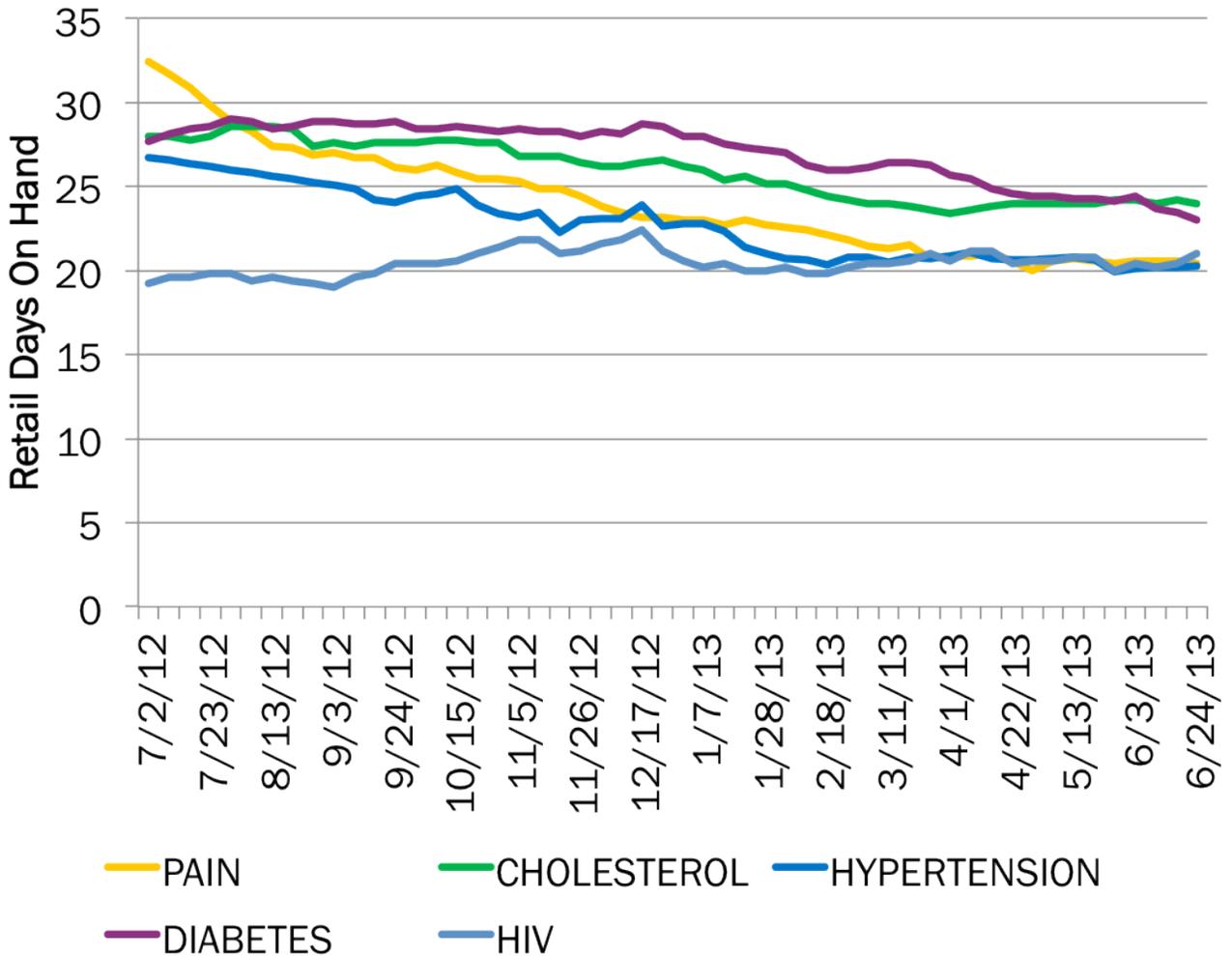
day, in-store availability and therefore requires a shift in approach to effectively manage the forward channel and ensure patient access.

We know that:

- Retail inventories declined across many branded therapeutic categories from Q3 2012 to Q2 2013
- Not that long ago it was common to see average days on hand (DOH) in the 30-35 day range. Now they are in the 20-25 DOH range.

# Retail Inventory Weekly Trends

\* Source DNA Channel Benchmark Report Q3 2012 to Q2 2013



“There is good reason to believe this trend will only continue.”

# Brand Rx

## Concentration in Pharmacies

---

The data demonstrates that demand is very concentrated. On average, a small number of pharmacies are the ones actually filling half the scripts. This means that in most therapeutic categories no more than 11,000 pharmacies fill 50 percent of the scripts. This is even more extreme in specialty (see HIV as an example).

In the past manufacturers sought to cast a wide net by stocking all pharmacies. That is now in tension with the reality of where demand is actually filled.

- Fewer than 10,000 pharmacies fill half the scripts written for a typical Rx brand.
- Specialty brands with open networks would be even more concentrated (see HIV example).

### QUESTIONS TO ASK:

- What is the right stocking strategy at launch and post launch based on these concentrations?
- What does it cost to stock 30,000-40,000 stores and does that even make sense?



## Brand Rx Concentration in Pharmacies

\* Source DNA Channel Benchmark Report Q3 2012 to Q2 2013

Market Dist'n (50%)	HTN	HIV	OAD	INSUL	DERM	DEP	CHOL	ANTI-COAG	PAIN
Top Deciles (6-10)	11,568	2,439	9,862	11,207	6,285	8,283	8,439	11,565	8,887
Bottom Deciles (0-5)	47,260	56,389	48,966	47,621	52,543	50,545	50,389	47,263	49,941
Total Market Potential	58,828	58,828	58,828	58,828	58,828	58,828	58,828	58,828	58,828

---

“Brand teams need awareness of the actual concentration of product demand.”

# Brand Rx

## Pharmacy In Stock Rates

---

For many manufacturers out of stocks risk lost sales and while that's not to the benefit of the retailer, it's not always clear whether not having the product on the shelf actually represents a meaningful risk of a lost sale in every instance. In fact, many retailers are betting on that not being the case. The model is now towards next day delivery, rather than same day in store availability.

- At any point in time, the average Rx brand is in stock at only 40-50% of pharmacies.
- The retail channel is increasingly relying on next day delivery to fill branded scripts.

### QUESTIONS TO ASK:

- How do you manage patient access to product when in some cases only 5% of pharmacies carry your product in stock?
- Where is the physical room for a branded product on the shelf when 90% of scripts will be filled by generic products?
- For new launches, is it possible that next day availability is actually good enough?

## Brand Rx Pharmacy In Stock Rates

\* Source DNA Channel Benchmark Report Q3 2012 to Q2 2013

Market	Fast Moving Brand In Stock Rate	Slow Moving Brand In Stock Rate
Hypertension	80%	26%
HIV	49%	14%
OAD	71%	44%
Insulin	73%	32%
Dermatology	44%	5%
Depression	61%	11%
Cholesterol	82%	57%
Anti-Coagulants*	57%	26%
Pain	76%	23%

---

“At any point in time, the average Rx brand is in stock at only 40-50% of pharmacies.”

# An Example

## In Stock Rates in the Diabetes Insulin Market

---

Let's take a look at a practical example. As you can see in the diabetes insulin market, there is almost no difference in in stock rates at fast versus slow moving pharmacies. What does this mean? Well, there isn't an inherent efficiency in where the product is being held. In this case it is actually very difficult to measure how not having a product available same day impacts sales. The reality is that for some manufacturers, next day availability is acceptable

It is interesting to note that even having a large number of scripts filled in a pharmacy does not mean that that pharmacy is more likely to maintain safety stock in the store.

### QUESTIONS TO ASK:

- Is next day availability acceptable for my brand?
- Do I understand the in stock rates for my brand at both top and bottom decile pharmacies?

## In Stock Rates in the Diabetes Insulin Market

\* Source DNA Channel Benchmark Report Q3 2012 to Q2 2013

Market Sales Distribution (50%)	Fast Moving Brands	Slow Moving Brands
Top Half Pharmacies (Deciles 6-10)	73%	37%
Bottom Half Pharmacies (Deciles 0-5)	73%	29%
<b>Total</b>	<b>73%</b>	<b>32%</b>

---

“Having a large number of scripts filled in a pharmacy does not mean that that pharmacy is more likely to maintain safety stock in the store.”

# Service Level

## Distributor Trends

---

So how is the forward distribution center actually doing since it is being relied on so heavily for next day product availability? The industry actually still enjoys relatively high distribution service levels and by this measure is very efficient. But the real question is how sustainable are these distributor service levels over the long haul? Where buffers have been removed in the stores that translates to greater pressure on chain distribution centers.

Plus, for many brands that enjoy high service levels, there is actually still room for improvement and the threat of declining inventories may impact these numbers in the future.

### QUESTIONS TO ASK:

- Are high service levels sustainable given the trend towards next day availability?
- Is there room for improvement in your current distributor service level?



## Distributor Service Level Trends

\* Source DNA Channel Benchmark Report Q3 2012 to Q2 2013  
(raw service level)

Therapeutic Market	Average Service Level, full year Slow Moving NDCs	Average Service Level, full year Fast Moving NDCs	Average Service Level, full year All NDCs
Anti-Coagulant	99.02%	99.28%	99.24%
Anti-Cholesterol	96.50%	97.38%	97.30%
Anti-Hypertension	96.89%	96.20%	96.29%
Anti-Depressant	96.63%	96.29%	96.58%
Pain	89.93%	98.40%	95.5%
Diabetes	99.44%	98.55%	98.61%
HIV	97.49%	98.44%	98.33%

“Declining inventories could very well impact service level in the future.”

# Service Level

## The Business Impact

---

The increasing focus on costs in US healthcare will drive providers to look to their intermediaries for margin support. The intermediaries will then look to their suppliers for the same. Lowering inventory levels can free up working capital for wholesaler intermediaries, but manufacturers will resist this if service levels are put at risk.

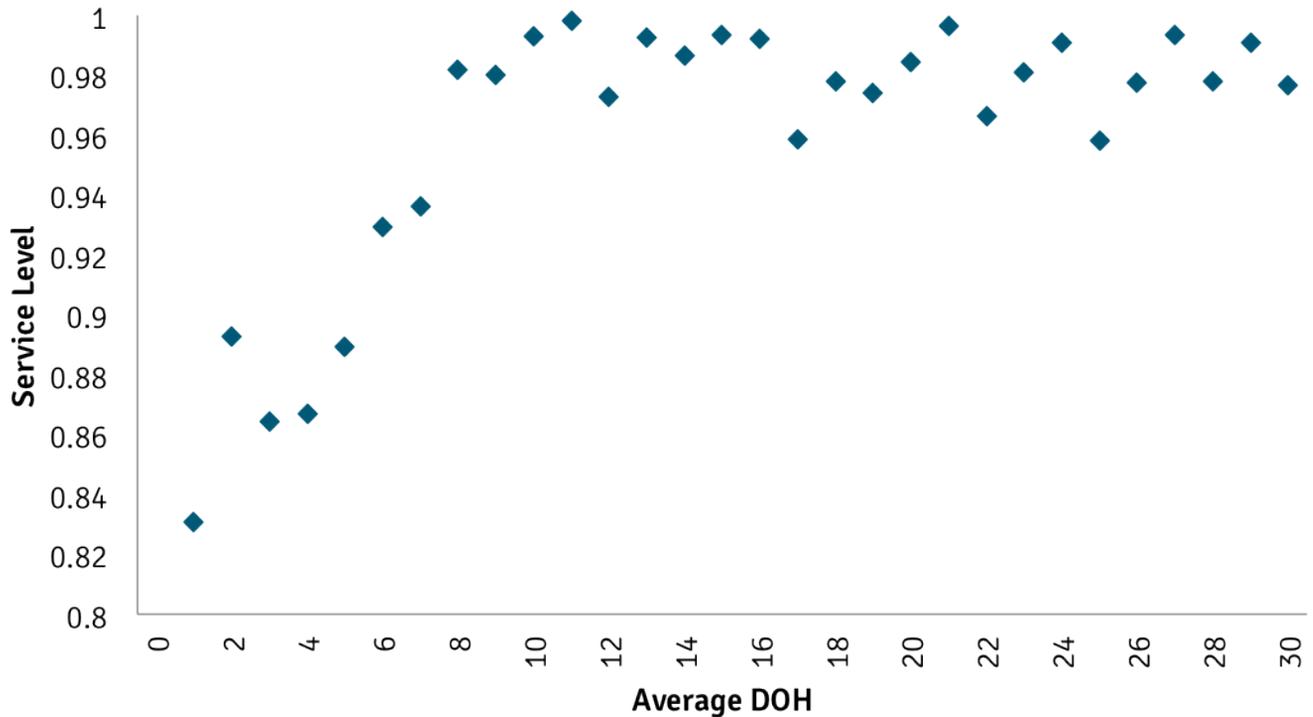
While inventories can come down, real service level risks emerge when individual DCs drop below an average of 8 days on hand. There's a cliff at this point and the data indicates that the channel cannot maintain a high level of service here. Less buffer than ever before means it's unreasonable to expect to change the channel's mind on how much buffer is kept and so a new approach is needed to maximize product availability

### QUESTIONS TO ASK:

- What happens when the way you're managing the channel is in the aggregate, but the risk is in the granular (DC)?
- What happen when incentives are not really geared at individual DCs?

## Business Impact - Service Level

\* Source Benchmark study of inventories across 500 brand NDCs and 90 wholesale and specialty DCs from Q3 2012 to Q2 2013



“Inventories can come down, but real service level risks emerge when individual DCs drop below an average of 8 days on hand.”

# So What?

## Why These Trends Matter

Branded therapies are losing inventory “buffers” that once acted as a product availability safety net:

- Chain warehousing
- On shelf inventory large numbers of retail stores
- High days on hand in wholesale DCs

Pharmacies are increasingly reliant on distributors’ FDCs to supply product on demand. This means that Trade and Customer Operations teams need to evolve their business processes to optimize product availability in this new environment.

### QUESTIONS TO ASK:

- Does an omit equal a lost sale?



---

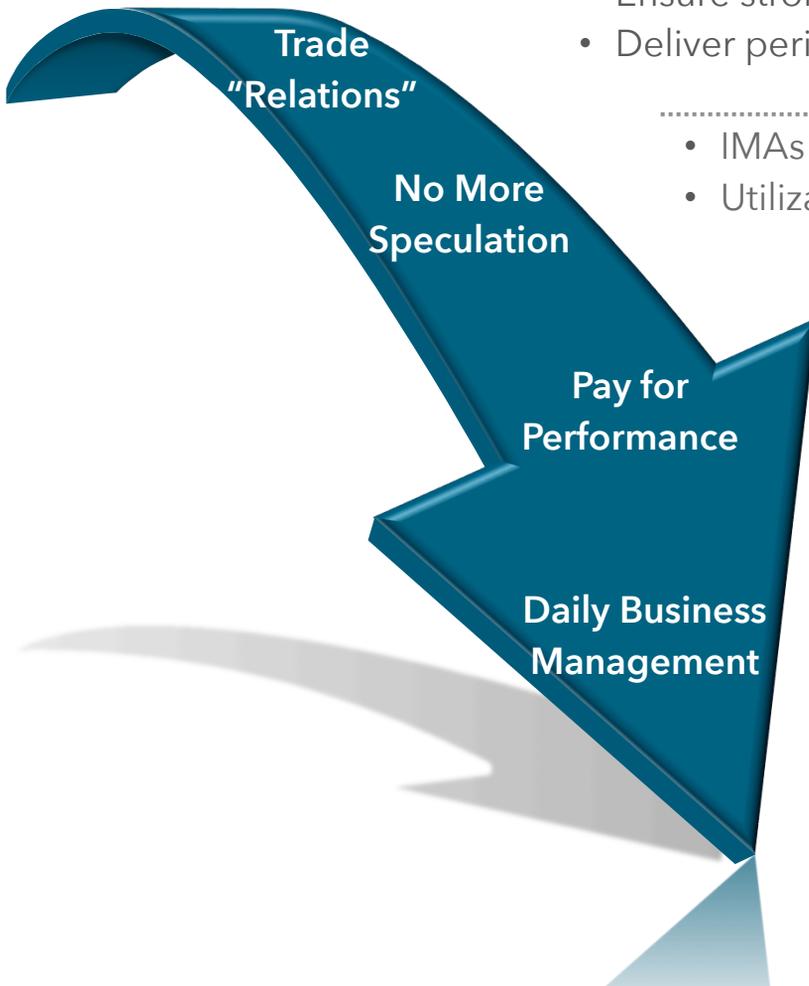
“For your brand, does an omit equal a lost sale? Do one in ten omits equal a lost sale? One in five?”

# The Evolution of Trade

## Daily Business Management

---

Daily Business Management (DBM) is the logical evolution in pay for performance agreements. Instead of responding to service level and other distribution issues reactively and infrequently, DBM is focused on using downstream data to drive collaboration and troubleshoot problems before they get out of hand. This data-driven, collaborative approach at an NDC and individual location level results in a stronger, mutually beneficial relationship between the manufacturer and trade partners.



- Ensure strong support of launches
- Deliver period-end revenue

- IMAs guaranteed but capped margin
- Utilization of 852 and 867 data

- Accounts earn margin by performance
- MFR focus on data-driven account management

- Daily MFR focus on finding actionable NDC-level data
- MFR-account collaboration to strategize and implement changes

"Daily business management is exception-driven collaboration with accounts for the high priority SKUs that drive the business."



# Best Practices

Daily Business Management

---

## Daily Business Management Best Practice: Next-Gen Order Management

### Question

Will the **order quantity** received today ensure high service level and target inventory level through the next period?

### Actionable Data

- Determine a minimum order quantity based on a demand forecast and safety stock model
- Compare the actual order to the minimum order

### Meaning

- How does the order quantity compare to a historical average?
- Is there a recent downward DOH trend?
- Is there recent service level risk?

### Potential Action

#### Collaboration with buyer:

- Order additional product for current period
- Increase safety stock target for future periods

---

“What is the impact of orders that are too small?”

## Daily Business Management Best Practice: FDC/NDC-level Inventory Analytics

Question	Actionable Data	Meaning	Potential Action
<p>Are there key SKUs with recent recurring omits or very low DOH in an <b>individual FDC</b>?</p>	<ul style="list-style-type: none"> <li>• Identify key SKUs with at least two consecutive weeks with omits</li> <li>• Identify keys SKUs with at least two consecutive weeks with very low DOW</li> </ul>	<ul style="list-style-type: none"> <li>• Is the order cycle the cause?</li> <li>• Is a demand spike or trend the cause?</li> </ul>	<p><b>Collaboration with buyer:</b></p> <ul style="list-style-type: none"> <li>• Increase demand forecast</li> <li>• Increase safety stock</li> <li>• Increase lead time</li> </ul>

---

“Can you currently manage by exception?”

## Daily Business Management Best Practice: Demand Sensing

### Question

Are there key SKUs with **increasing demand**, either in aggregate or for specific customers or classes of trade, that may require increased inventory to maintain high service level?

### Actionable Data

- Identify key products or SKUs with clear upward demand trends
- Identify potential key products that will have upward demand trends based on internal intel

### Meaning

- Are existing inventory levels sufficient to cover increased demand?
- **Will channel planning systems react to the trend before service levels are impacted?**

### Potential Action

- Proactive dialogue with buyer:**
- Increase demand forecast
  - Increase safety stock

---

“Are you having an informed dialog around what orders *should* be?”

# Best Practices

## Targeted Launch Stocking

---

Daily Business Management supports far more targeted and cost effective stocking of the channel at launch. Using pharmacy benchmark data, EDI 867, Rx data for the locations of high writers, and sales force alignment, manufacturers can identify key stores for stocking and cut down on the need for launch incentives.

In a targeted launch approach, manufacturers focus on only stocking high decile pharmacies. Following the launch, EDI 867 is used to monitor stocking progress against objectives and inform further stocking decisions and determine if the channel is following through. This helps manufacturers achieve better results rather than relying strictly on incentives.



# Daily Business Management Best Practice: Targeted Launch Stocking

	Outlet Count	Pharmacy Deciles											Total
		10	9	8	7	6	5	4	3	2	1	0	
	10	105	154	130	116	71	81	75	77	59	58	11	937
	9	5,038 Critical Targets					6,049 Good Targets					14	1,671
	8	High Rx Historically High Fillers for Diabetes Insulin					Light Overall Rx, but... Historically High Fillers for Diabetes Insulin					25	2,242
	7											32	2,851
	6	72	150	263	315	349	416	459	483	487	473	39	3,506
	5	63	134	212	260	369	480	616	643	649	811	47	4,284
	4	5,431 Possible Targets					38,179 Low Value Targets					63	5,248
	3	High Overall Rx, but... Historically Light Fillers for Diabetes Insulin					Light Overall Rx, and... Historically Light Fillers for Diabetes Insulin					100	6,600
	2											127	8,806
	1	85	139	206	326	462	660	816	816	1,466	505	19,332	
	0	3		12	20	33	49	59	55	92	1,200	1,828	3,351
	Total	812	1,556	2,130	2,693	3,326	4,081	5,050	6,391	8,712	21,286	2,791	58,828

“In a targeted launch approach, manufacturers focus on only stocking high decile pharmacies.”

# Data and Technology

## Things to Consider

---

How are you approaching trade data today?

- Do you receive data frequently enough to make DBM even possible? To do DBM you need 852 daily.
- Is cost tied up in managing or using data? Data quality issues and data manipulation consume significant resources.
- Is your reporting or BI platform flexible enough to support more intensive use of data?
- Are there traps in your data's quality that undermine your organization's confidence in it? Sometimes these traps come in the form of MDM or visibility, timeliness, and completeness.

Do you have visibility into end-to-end inventory? This is a real challenge since few have fully rendered inventory retail visibility and some lack EDI capability altogether.

Are you able to embed trade data at the point of action? This is where informed applications make all the difference. A vanilla report isn't good enough. With informed applications, the data is laid out into the workflow of how your team will be using data.

# Conclusion

---

While Daily Business Management may feel out of reach at this point for your organization, there are certainly smaller, intermediate things you can do now.

1. Start by educate the organization that the channel is changing. Consider sharing the data in this ebook!
2. Supplier-buyer collaboration is the key to today's leaner channel. Try to find the win/win that benefits both sides of the equation.
3. Buyers will work best with the most informed, data-driven suppliers. This means becoming the leading expert on your own product in the channel.
4. Find ways to effectively use the data you have at the point of action. This will give you a competitive advantage.

IntegriChain is the leading channel management cloud used by suppliers to manage relationships, inventories, and orders across retailers, e-tailers, and distributors. As a suite of informed applications built on top of channel inventory and point-of-sale (POS) data, IntegriChain helps to control the high cost of product distribution while improving product availability. Learn more at [www.integrichain.com](http://www.integrichain.com).